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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

The Economic Situation In South Vietnam

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ER IM 71-241
December 1971

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**CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1971**

INTELLIGENCE MEMORANDUM

THE ECONOMIC SITUATION IN SOUTH VIETNAM

Highlights

1. Saigon commodity and currency markets continue to react favorably to the reforms announced on 15 November. Retail prices had increased only 3.4% by 20 December, and the black market price of dollars had fallen below the pre-reform level. Importers are still somewhat confused by the new exchange and tax rates, but the recent devaluation of the dollar may help remove one element of uncertainty from their operations.
2. After a slow start the government-sponsored program to establish privately owned banks throughout rural Vietnam has gained momentum.
3. Recently published surveys of family expenditures in urban areas indicate that in 1969 consumers allotted considerably more of their budget to food than they did in 1963. Among the five major cities in Vietnam, per family expenditures and, most likely, incomes were highest where there have been large concentrations of US personnel.
4. Charts on foreign exchange reserves, money supply and prices, import licensing, gold and currency prices, and the government budget follow the text.

Note: This memorandum was prepared by the Office of Economic Research.

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CONFIDENTIALRecent Market Trends

5. Market response to the economic reforms enacted on 15 November continued to be generally favorable through late December. Although the retail price index moved up for the week of 13-19 December, Saigon markets basically appear to have stabilized for the time being.⁽¹⁾ This condition should have a steadying influence on markets elsewhere in the country, which have been more volatile.

6. Despite spectacular price increases for such commodities as condensed milk, sugar, and newsprint, the USAID weekly retail price index for Saigon had risen only 3.4% by 20 December, compared with the level that prevailed on 15 November.⁽²⁾ Rice prices began to decline in early December after increasing sharply throughout November. The break in rice speculation has encouraged merchants to step up their procurement, and deliveries from the Delta to Saigon reportedly are increasing. With the first crop of high-yielding varieties already harvested and the main harvest under way, merchants expect prices to continue falling for several weeks. There apparently still is pressure on government stocks in the northern rice-deficit provinces, but most of the emergency imports arriving in the country this month are earmarked for those areas.

7. At last report, importers still were confused about how the new exchange and tax rates would affect their operations, and, as a result, they were relatively inactive. The US announcement in mid-December of an effective devaluation of the dollar should somewhat reduce another source of confusion for importers, although it is still not clear how much non-US suppliers will allow their prices to rise on the Vietnamese market.⁽³⁾ Between 9 and 16 November, prices of imported goods, excluding rice, increased about 5% (about one-fifth of the total since the start of the year), but then remained stable through the end of November.

1. An increase of 1% in the price index in the third week of December appeared to be based largely on factors unrelated to the reforms. Rising fish and meat prices, which contributed to the increase, were attributable to an upward trend in pork prices and the seasonal influence of the Christmas holiday. The price of white calico also rose in response to temporary tax measures to favor the domestic industry.

2. Since the end of 1970 the index has risen 14%.

3. Two factors will be particularly important in determining the effect of the dollar devaluation on the cost of non-US imports (which account for about one-half of the total). First, far and away the greatest share of available foreign exchange is in the form of US dollars. This suggests that South Vietnamese importers will have to bear the full costs of third-country currency appreciation. The second factor - the choice of foreign suppliers to reduce their profits so as to maintain competitive prices - will probably offset this, although we cannot yet tell by how much.

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8. Currency markets stabilized fairly quickly following the devaluation. Black market dollar and gold prices reached a peak on 22 November, but have since fallen below the last pre-devaluation quote. Even the issuance of 1,000-piaster banknotes for the first time on 29 November did not produce the speculative flurry - engendered by the psychological impact of large note issuance - that many officials expected. As of 20 December the black market price of dollars was 410 piasters per dollar,⁽⁴⁾ equal to the new financial market exchange rate established on 15 November for legal currency conversions by individuals. The rate for MPC (scrip), at 383 piasters per dollar, was well below the new legal rate.

Rural Banking System

9. The extension of private banking facilities into rural areas has gained momentum with the opening of six new banks since September, including one only 9 miles south of the Demilitarized Zone. The rural banking system was started in September 1969, but only four banks had been opened by the end of 1970. There now are 20 banks located in district towns scattered throughout the country, and several more are expected to open within the next few months. The rural banking system, patterned after a similar operation in the Philippines, is designed to help meet the demand for credit, which is only partly satisfied by the government's Agricultural Development Bank (ADB). Although privately owned and managed, the banks receive matching capital contributions from the government through the ADB and are under the ADB's supervision. The ADB also provides assistance in the form of training, auditing, and preferred rediscount rates.

10. Officials hope that eventually banks will be established in all district towns and that they can assume the responsibility for short-term credit in rural areas, thereby freeing the ADB to concentrate on financing medium- and long-term agricultural development projects. With knowledge of local conditions, the rural banks should be better able to meet the needs of borrowers than the ADB, whose facilities are generally located in provincial capitals. The rural banks naturally are still a long way from taking over the ADB's role in making production loans. During the first three quarters of 1971, the private banks extended loans amounting to about 700 million piasters, compared with 6 billion to 7 billion piasters in short-term loans granted by the ADB. Interest rates charged by the private banks range from 18% to 20% per year, compared with 20% to 24% for similar loans by the ADB.

4. More precisely, the black market rate cited is that at which US \$10 bills are sold by the dealers. An individual selling to the black market dealer would receive less than 410 piasters per dollar for them.

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Expenditure Surveys

11. The recently published results of family expenditure surveys for several South Vietnamese cities suggest some striking changes in spending patterns in Saigon during the 1960s.⁽⁵⁾ The most notable difference between this survey - which took place in Saigon in 1969 - and a broadly comparable one for 1963 is an increased share for food in total spending. This change does not correspond to what one would normally expect for an area undergoing substantial increases in incomes. It does, however, reflect the observed pattern of changes in the relative prices of consumer goods. Thus war-disruption of farming and efforts to increase farm incomes meant disproportionate price gains for food during the period.

12. In the absence of good information on incomes, the family expenditure surveys also provide a kind of proxy for data on incomes in urban areas. Rough calculations of average family expenditures in the five cities surveyed (see the table) indicate that expenditures (and most likely incomes) were considerably higher in Saigon and the coastal cities of Nha Trang and Da Nang than in the cities centered in agricultural areas like Can Tho and Da Lat. This is probably a function of the much greater number of jobs available in the former cities, which have had large concentrations of US personnel. The data may also be somewhat biased in favor of Da Nang and Nha Trang because the surveys there were conducted at a later date than those in the other three cities. Unfortunately, sufficient information is not available to make any comparisons of the changes in total expenditures (or incomes) between 1963 and 1969.

5. Surveys also were taken in Can Tho, Da Lat, Nha Trang, and Da Nang during 1968-70, but data from similar surveys conducted in 1963 are not available for comparison.

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Average Family Expenditures Per Year a/

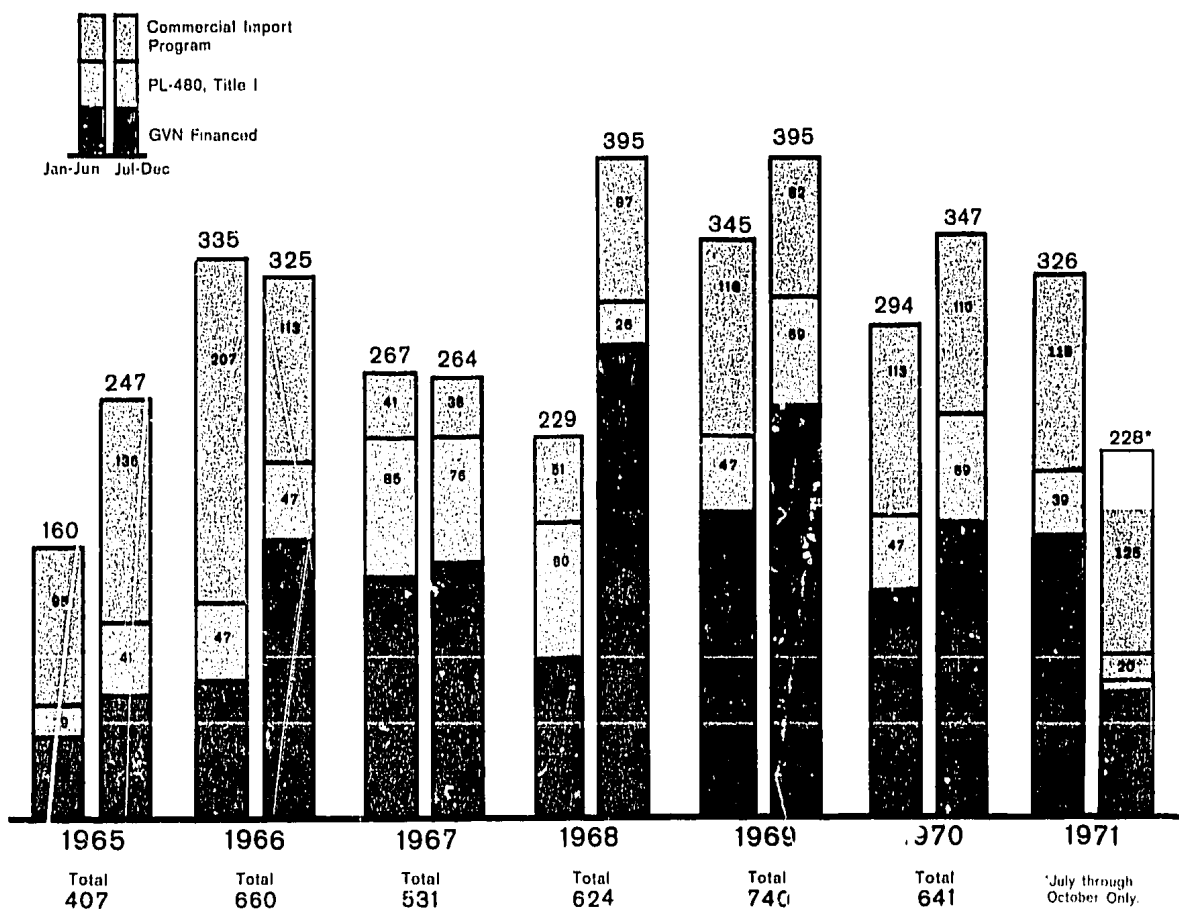
	<u>Thousand Piasters</u>
Saigon	290
Can Tho	260
Da Lat	235
Nha Trang	290
Da Nang	290
All five cities	275

a. In Saigon, Can Tho, and Da Lat, most of the data were collected in 1969. In Da Nang the survey occurred between mid-1969 and mid-1970, and in Nha Trang mainly during 1970.

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IMPORT LICENSING

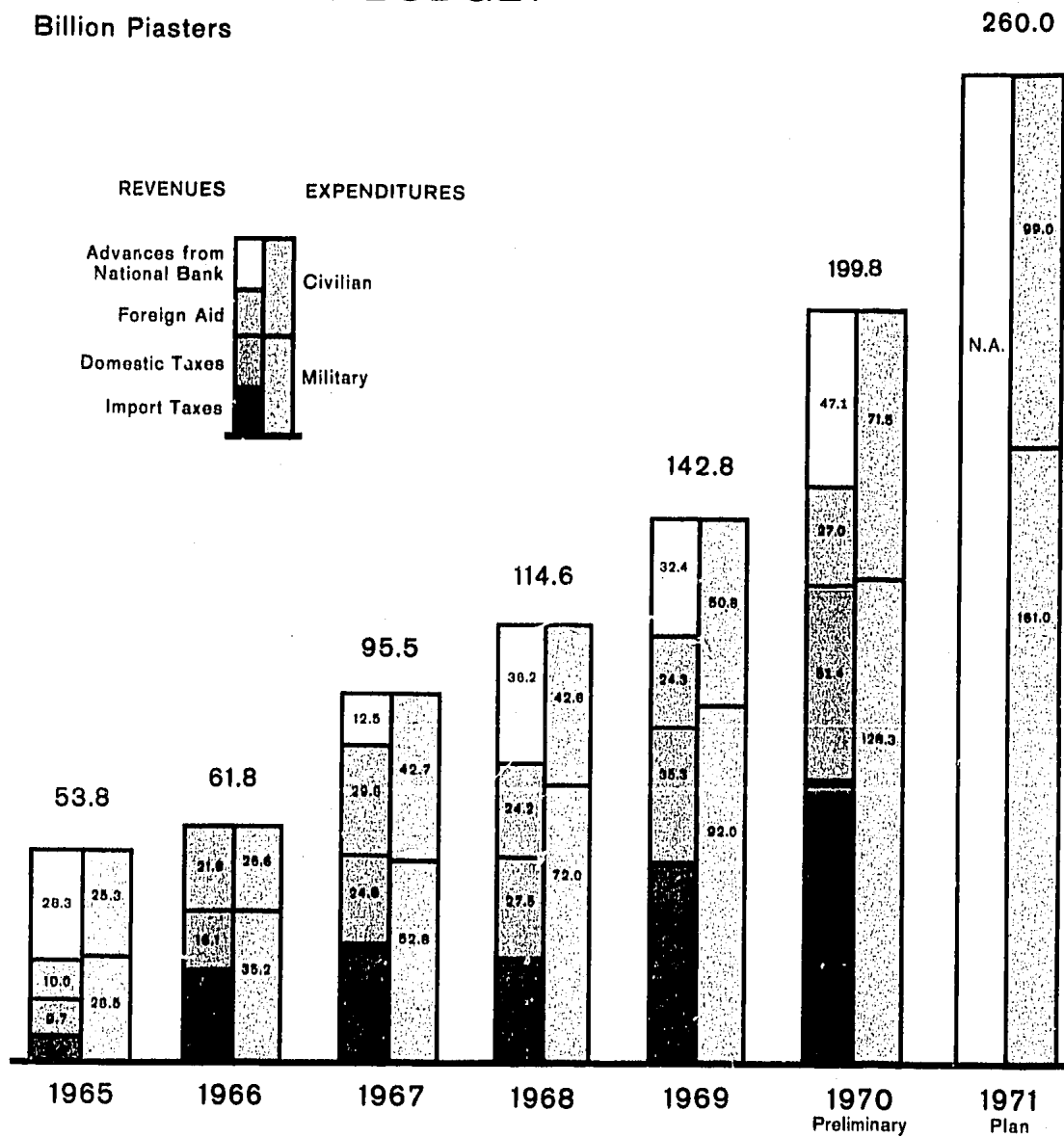
Million US Dollars



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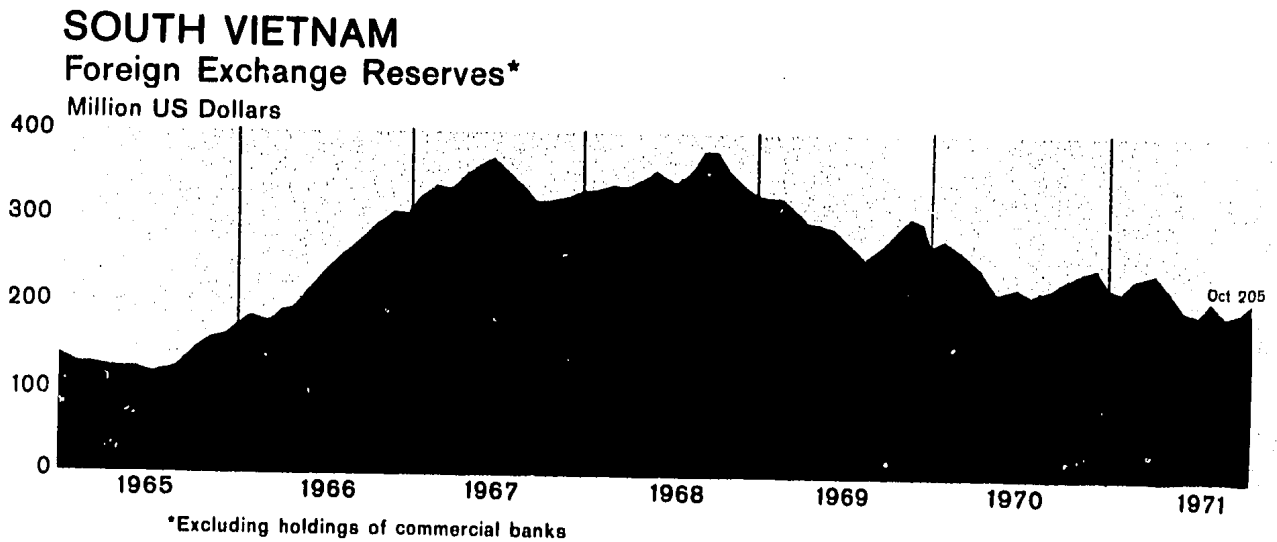
GOVERNMENT BUDGET*

Billion Piasters

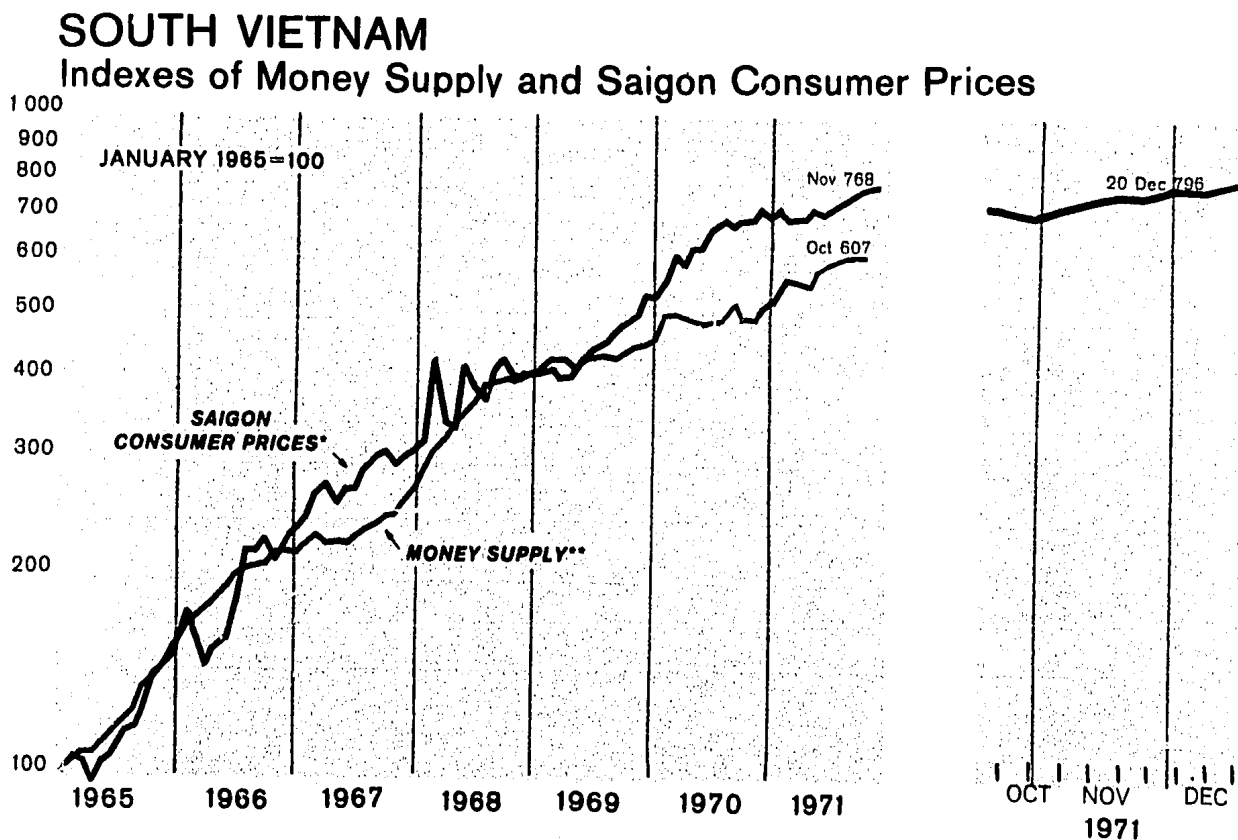


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*Data include extrabudgetary revenues and expenditures



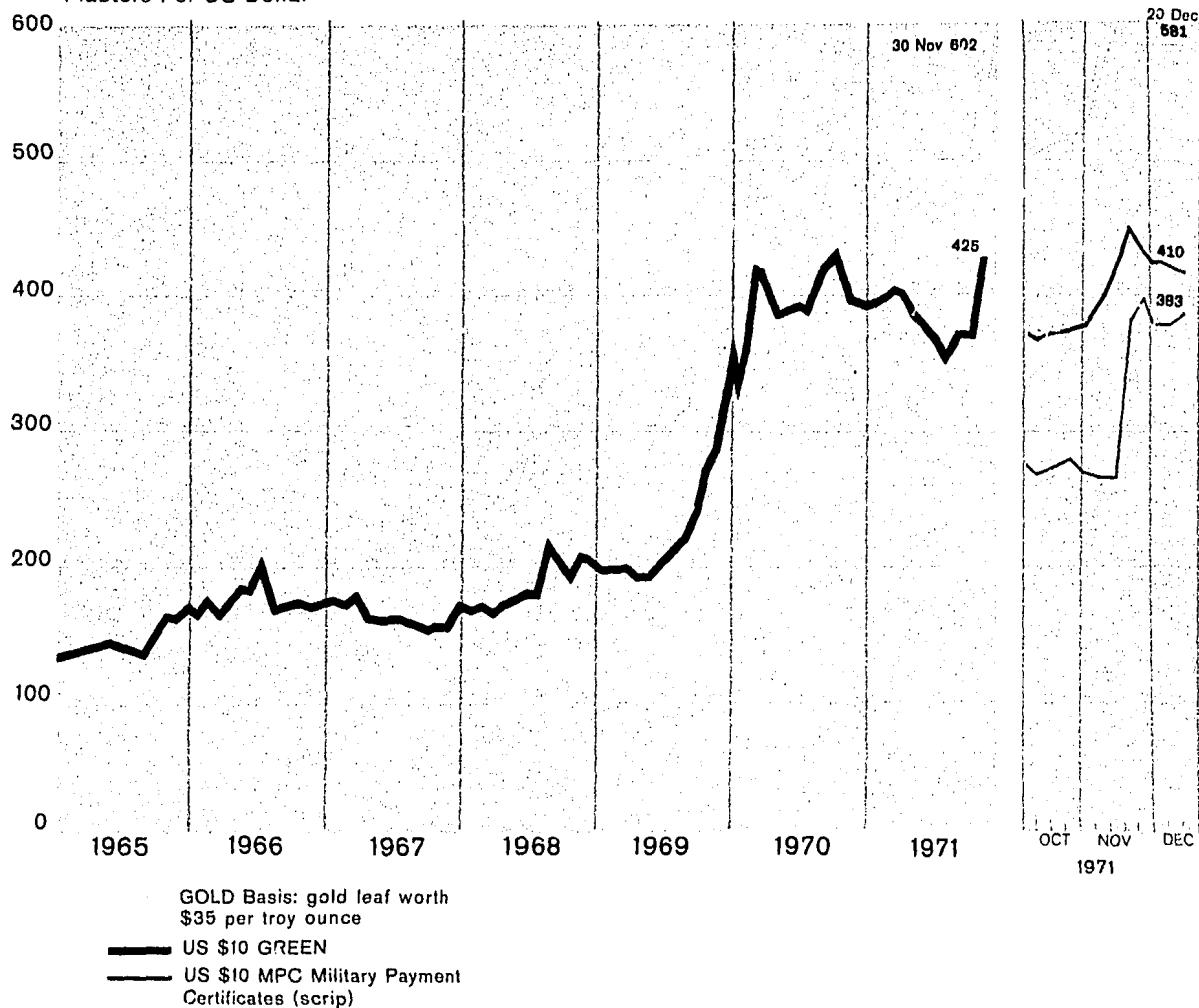
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*USAID monthly average retail price index for Saigon
 **Data are for end of month

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SAIGON **Free Market Gold and Currency Prices** Piasters Per US Dollar



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